

# TPI POLENE POWER PLC

No. 54/2020  
23 July 2020

## CORPORATES

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
Senior unsecured	BBB+
<b>Outlook:</b>	Stable

**Last Review Date:** 25/03/20

### Company Rating History:

Date	Rating	Outlook/Alert
25/03/20	BBB+	Stable
10/04/19	BBB+	Positive
17/09/18	BBB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on TPI Polene Power PLC (TPIPP) and the ratings on its outstanding senior unsecured debentures at “BBB+” with a “stable” outlook. At the same time, TRIS Rating affirms a rating on TPIPP’s proposed issue of up to THB6 billion in senior unsecured debentures announced on 25 March 2020 at “BBB+”.

The purpose of this report is to provide an update on TPIPP’s objective of debenture issuances. The proceeds from the new debentures will be used for the efficiency improvement of power plants, working capital needs, and land procurement in Songkla province.

The ratings continue to reflect TPIPP’s robust cash flows from its power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT), its high profitability from adders, competitive fuel costs, and strong financial profile. However, the ratings are offset by the relatively high operational risks of refuse-derived fuel (RDF) power plants and our concerns toward the large debt-funded investments in the Special Economic Zone (SEZ) development project in southern Thailand.

TPIPP is a subsidiary of TPI Polene PLC (TPIPL) (rated “BBB+/stable” by TRIS Rating). On a stand-alone basis, TPIPP’s company rating is assigned at “A”, suggesting a stronger credit profile than TPIPL. However, TPIPP’s rating is capped by TPIPL’s rating at “BBB+” according to our group rating methodology.

TPIPP has already submitted a proposal to be the project developer in the government’s SEZ project in the Southern part of Thailand. The government is intent on developing the SEZ project in the Songkhla province as it will enhance national security for the southern part of Thailand through the promotion of industries, export earnings, employments and public well-beings in the region. The SEZ will include deep-sea ports, industrial estates, and power plants of about 3,700 megawatts (MW) using natural gas, biomass or other renewable energy sources. To increase a chance of being a project developer, TPIPP has acquired an accumulated 16,700 rai of land plots in Jana district of Songkhla province. Total land acquisition is estimated to cost approximately THB12-THB13 billion.

In our view, the land procurement is very likely to increase TPIPP’s debt level until the SEZ project is able to generate returns. Although the Cabinet agreed in principle to establish a SEZ in Songkhla province, we believe that the timeframe for project development could be lengthy due to the slow-moving bureaucratic procedures. The project still requires further approvals from the relevant government authorities before development can commence. In case TPIPP is officially granted the right to develop the project, TPIPP will require considerable capital spending for such developments but we expect the company will prudently manage its project structure and financing to avoid any substantial deterioration in its balance sheet and debt serviceability. However, if the project development is successfully completed, the project will be a new growth driver of cash flow and enhance its profitability for a lengthy period.

In terms of financial profile, we expect TPIPP’s cash flow to further improve further. The utilization rates of the RDF-fired power plants will improve following the complete installation of new boilers in 2020. Earnings before

interest tax, depreciation, and amortization (EBITDA) will reach THB6 billion in 2020 and THB6.5 billion in 2021 before dropping to THB5.8 billion in 2022. The earning drop is due to an expiration of TPIPP's tariff adder in 2022 for 73 MW contracted capacity out of 163 MW, thereafter, TPIPP still can sell electricity to EGAT at the base tariff. The EBITDA margin is expected to decline due to a larger contribution from the coal-fired power plant. However, the overall EBITDA margin should remain high in the range of 48%-52%.

We expect TPIPP to maintain its strong financial profile. In our base-case forecast for 2020-2022, capital expenditures are projected to total THB16.7 billion, earmarked for land procurement, disbursement for power plant improvements and other potential new investments in waste-to-energy power plants. As a result, we forecast the net debt to capitalization ratio of TPIPP to stay between 30%-35% and its net debt to EBITDA ratio to maintain at 2-3 times. These financial ratios indicate a comfortable level of financial leverage. However, we highlight the company is actively seeking out further growth which means larger-than-expected investments remain possible.

## RATING OUTLOOK

The "stable" outlook of TPIPP embeds our expectation that TPIPP's power plant operations will continue to generate solid cash flows over the long term. TPIPP is likely to remain in its status as a core subsidiary of TPIPL. Therefore, any change in TPIPL's ratings will affect TPIPP's ratings.

## RATING SENSITIVITIES

The rating upgrade is limited due to the prospect of large investments in new power projects and the SEZ project. Conversely, a downgrade in ratings could occur if TPIPP's operating performance is weaker-than-expected or if the company makes excessive debt-financed investments and result in a significant surge of the group's consolidated outstanding debt. The ratings or outlook of TPIPP could also be revised downward if TRIS Rating downgrades TPIPL's ratings.

## RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

## TPI Polene Power PLC (TPIPP)

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
TPIPP21NA : THB4,000 million senior unsecured debentures due 2021	BBB+
TPIPP22NA : THB4,000 million senior unsecured debentures due 2022	BBB+
Up to THB6,000 million senior unsecured debentures due within 5 years	BBB+
<b>Rating Outlook:</b>	Stable

## TRIS Rating Co., Ltd.

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